

Message Text

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ACTION EB-08

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SS-15 STR-07 ITC-01 TRSE-00 ICA-20 SP-02 SOE-02
OMB-01 DOE-15 /136 W
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TO SECSTATE WASHDC 4065
AMEMBASSY BRUSSELS
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BRUSSELS FOR USEEC
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E.O. 11652: N/A
TAGS: ETRD, GATT
SUBJECT: NEW GATT STUDY "ADJUSTMENT, TRADE AND GROWTH
IN DEVELOPED AND DEVELOPING COUNTRIES"

1. WE DRAW WASHINGTON'S ATTENTION TO NEW GATT STUDY
"ADJUSTMENT, TRADE AND GROWTH IN DEVELOPED AND DEVELOPING
COUNTRIES" WHICH WAS RELEASED TODAY. STUDY IS NUMBER 6 IN
SERIES "GATT STUDIES IN INTERNATIONAL TRADE" AND WAS
WRITTEN BY MESSRS. BLACKHURST, MARIAN AND TUMLIR OF GATT
SECRETARIAT STAFF.

2. THIS STUDY CARRIES FURTHER THE LINE OF ANALYSIS OF AN
EARLIER GATT STAFF PAPER IN THE SAME SERIES, "TRADE
LIBERALIZATION, PROTECTIONISM AND INTERDEPENDENCE," BY
THE SAME THREE AUTHORS, PUBLISHED IN NOVEMBER 1977. BUT
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WHEREAS THE EARLIER STUDY EXAMINED THE GENERAL ISSUE OF
PROTECTION AND LIBERALIZATION, THIS ESSAY FOCUSES ON
MORE SPECIFIC PROBLEMS AND OBSTACLES IN THE AREA OF
ADJUSTMENT AND TRADE, AND PROVIDES WHERE POSSIBLE STATIS-
TICS ON THE MAGNITUDE OF VARIOUS DEVELOPMENTS. THE AUTHORS
ALSO DEVELOP FURTHER THE TWO MAIN THEMES OF THEIR EARLIER
STUDY: FIRST, THE IMPORTANCE OF INTERNATIONAL TRADE AS

A SOURCE OF ECONOMIC GROWTH; SECOND, THAT PROTECTIONISM IS A SHORT-RUN BUT ULTIMATELY SELF-DEFEATING ALTERNATIVE TO ADJUSTMENT, WHICH IS A NECESSARY CONDITION OF ECONOMIC GROWTH.

3. THE STUDY CONSISTS OF AN INTRODUCTION, TWO CHAPTERS, AND A CONCLUDING SECTION. THE FIRST CHAPTER SURVEYS THE LONG-TERM AS WELL AS THE MORE RECENT CHANGES IN THE GROWTH AND TRADE OF DEVELOPING COUNTRIES CLASSIFIED INTO SEVERAL CHARACTERISTIC GROUPS. THE SECOND CHAPTER DEALS WITH THE TRADE STRUCTURE AND ECONOMIC ACTIVITY OF THE DEVELOPED COUNTRIES, AND EXPLORES SPECIFIC PROBLEMS WHICH THESE ECONOMIES ARE FACING IN ADJUSTING TO CONTINUOUS CHANGE IN BOTH NATIONAL AND INTERNATIONAL POLITICAL-ECONOMIC CONDITIONS.

4. SOME OF THE POINTS WHICH THE PAPER MAKES ARE THE FOLLOWING. THE STUDY NOTES THAT DURING THE DECADE ENDING IN 1973, THE INCREASE IN THE DEVELOPING COUNTRIES' PURCHASES OF MANUFACTURED GOODS FROM THE INDUSTRIAL COUNTRIES WAS MORE THAN DOUBLE THE INCREASE IN THEIR EXPORTS OF MANUFACTURES TO THE INDUSTRIAL COUNTRIES. RECENTLY, THIS TREND HAS BEEN EVEN MORE PRONOUNCED. THE DEMAND FROM DEVELOPING COUNTRIES FOR MANUFACTURES WAS LESS AFFECTED BY THE 1973-76 RECESSION THAN THE DEMAND FROM INDUSTRIAL COUNTRIES, AND THIS MADE A SUBSTANTIAL

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CONTRIBUTION TO THE EXPANSION OF WORLD TRADE DURING THE RECESSION. "THIS DEVELOPMENT ILLUSTRATES THE IMPORTANT COUNTER-CYCLICAL OR SUPPORT ROLE WHICH DEVELOPING COUNTRIES CAN PLAY DURING ECONOMIC DOWNTURNS IN INDUSTRIAL COUNTRIES."

5. IN EXAMINING THE MAIN PRESSURES FOR CHANGE IN INDUSTRIAL ECONOMIES, PAPER CONCLUDES THAT THESE PRESSURES REQUIRE NEW INVESTMENT. SINCE NOT ONLY AN OBJECTIVE NEED BUT ALSO TECHNICAL OPPORTUNITIES FOR INVESTMENT EXIST, THE QUESTION IS WHAT PREVENTS THEM FROM BEING TRANSLATED INTO EFFECTIVE INVESTMENT OPPORTUNITIES. THE AUTHORS CONCLUDE THAT THE WEAKNESS OF INVESTMENT IS TO BE EXPLAINED BY AN INCREASED LEVEL OF UNCERTAINTY COINCIDING WITH A DECLINE IN (OR AN INADEQUATE RECOVERY OF) THE RATE OF RETURN ON INDUSTRIAL CAPITAL. INFLATION IS SEEN TO BE THE MAJOR FACTOR IN BOTH DEVELOPMENTS.

6. CONCERN ABOUT THE INSTABILITY OF INTERNATIONAL ECONOMIC RELATIONSHIPS IS THE SECOND MAJOR SOURCE OF INVESTMENT-INHIBITING UNCERTAINTY. THE DRIVING FORCE BEHIND THE POST-WAR PERFORMANCE CAME FROM OUTWARD LOOKING

LONG-TERM INVESTMENTS, MADE POSSIBLE BY THE STABILITY BROUGHT TO THE WORLD TRADING SYSTEM BY THE INTERNATIONAL INSTITUTIONS CREATED IN THE POST-WAR PERIOD. DEVELOPMENTS IN RECENT YEARS HAVE TENDED TO UNDERMINE THIS STABILITY AT AN ACCELERATING PACE. AN INCREASE IN PROTECTIONIST PRES- SURES TO LEVELS NOT SEEN SINCE THE GREAT DEPRESSION, A MULTIPLICATION OF PRODUCTS WHOSE ALLEGEDLY UNIQUE SITUA- TION REQUIRES MAKING EXCEPTIONS TO LONG-ESTABLISHED RULES GOVERNING DOMESTIC AND INTERNATIONAL TRADE, GROWING DISREGARD OF THE NON-DISCRIMINATION PRINCIPLE AND A VARIETY OF OTHER PROTECTIONIST DEVELOPMENTS HAVE ALL CONTRIBUTED TO A MARKED INCREASE IN UNCERTAINTY SURROUND-

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ING FUTURE MARKET ACCESS. THE STUDY POINTS OUT THAT CARTELIZATION OF AN INDUSTRY ALSO REDUCES INVESTMENT INCENTIVES.

7. THE STUDY SAYS THAT THE EFFECT OF INCREASED IMPORTS ON DOMESTIC JOB DISPLACEMENT IS TYPICALLY QUITE SMALL RELATIVE TO OTHER FACTORS SUCH AS LABOUR-SAVING INNOVA- TIONS; A LONG-TERM DECLINE IN THE DEMAND FOR A GOOD OR SERVICE; ANNUAL NET ADDITIONS TO THE LABOUR FORCE; VOLUNTARY QUILTS FOR THE PURPOSE OF INCREASING EARNINGS

OR JOB SATISFACTION; AND BUSINESS RECESSIONS. THE STUDY EXAMINES SEVERAL LIKELY MOTIVATIONS BEHIND THIS MISPLACED EMPHASIS ON IMPORT RESTRICTIONS AS A DEVICE FOR PROTECTING EMPLOYMENT. AMONG THESE FACTORS ARE: (1) LACK OF FAMILIARITY WITH THE RELEVANT STATISTICS. THE AUTHORS SAY IT WOULD NOT BE SURPRISING TO UNCLASSIFIED

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DISCOVER THAT A MAJORITY OF THE PUBLIC IN THE DEVELOPED COUNTRIES HAVE A HIGHLY EXAGGERATED VIEW OF THE RELATIVE IMPORTANCE OF IMPORTS AS A SOURCE OF JOB DISPLACEMENT. (2) WHATEVER THEIR NET RESULTS, TRADE RESTRICTIONS APPEAR FASTER AND MORE EFFECTIVE THAN POLICIES DIRECTED AT OTHER SOURCES OF EMPLOYMENT PROBLEMS. THIS APPEARANCE IS DECEPTIVE. ANY RESTRICTION ON IMPORTS MUST HAVE A DEPRESSING EFFECT ON EMPLOYMENT IN THE EXPORT SECTOR BECAUSE THE LESS WE BUY FROM THE REST OF THE WORLD, THE LESS THEY BUY FROM US (REGARDLESS OF WHETHER OR NOT THEY EXPLICITLY RETALIATE). THIS IS STILL NOT WIDELY APPRECIATED AMONG THE GENERAL PUBLIC NOR, MORE SURPRISINGLY, AMONG EXPORT INDUSTRIES. (3) ATTACKING IMPORTS NOT ONLY GENERATES LITTLE DOMESTIC OPPOSITION, BUT IS OFTEN QUITE POPULAR.

8. COPIES OF STUDY WILL BE POUCHED WASHINGTON.
VANDEN HEUVEL

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